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Bureaus Take Another Run At **Fair Isaac**
Will single-algorithm pitch be enough to persuade lenders?

By Matthew Quinn

The big three credit bureaus -- Equifax Inc., Experian Inc., and TransUnion LLC -- said they have banded together to develop a scoring system they hope will give **Fair Isaac** Corp.'s **FICO** scores competition as the industry standard.

Currently the bureaus provide **FICO** scores calculated using **Fair Isaac's** methodology and their own data but the bureaus say that the model actually differs from one bureau to the next because of changes adopted over the years. (All three sell proprietary scores, which have been sparsely adopted.)

Partly as a result, **FICO** scores can vary significantly between bureaus, mortgage lenders say. The three bureaus' system, **VantageScore**, uses a single algorithm, eliminating variances except for those attributable to the underlying data. Testing has shown variances to decrease by more than 30%, said Paul Springman, Equifax's chief marketing officer.

However, data inconsistency may be a more significant source of variances, said underwriters at two mortgage lenders. And there is no sign that the bureaus are about to commingle their data.

Dana Wiklund, Equifax's senior vice president of predictive sciences, said the bureaus shared records to build the model, but don't plan to "intermingle or collaborate on any data management."

Several lenders expressed interest in the new offering.

"I think it would certainly be a help and give some better consistency to the process," said Patrick Lamb, the president of First National Bank of Arizona's mortgage division. "Generally you're trying to get as many data points as you can to make the best decision possible."

Both National City Corp. and MGIC Investment Corp. said they would test the new score. Dave Greco, MGIC's vice president of credit policy, said he is doing so to "be prepared if the market is going in this direction," though he considers **FICO's** model "highly predictive of defaults."

A switch to a new scoring system could take time. Thomas G. Grudnowski, Fair Isaac's chief executive, noted that banks' technology infrastructure and credit policies have been built around his company's scores. "To change that is really, really hard, and you have to have a really, really good reason to do it," he said.

Whenever Fair Isaac rolls out a new product -- such as one introduced last year that uses nontraditional credit data -- it usually took years for banks to test it and get comfortable, Mr. Grudnowski added.

"The major reason for differences across scorings -- their scores, our scores, anybody's scores -- is the data," he said. "A common blueprint used to create scores across all three bureaus -- that's what we were doing."

Mr. Wiklund acknowledged that "the scores that are out there are highly embedded and pervasive throughout the industry." He said he expects VantageScore will go "through a cycle of introduction, validation, testing and acceptance. ... This is going to take several months."

Previous attempts to compete with FICO scores have not had much impact. Chet Wiermanski, the vice president of analytic services at TransUnion, said major lenders' use of its proprietary scoring model has been limited to "niches ... where they don't get the results they're looking for from other products, primarily because the score isn't available at the other two bureaus."

Mr. Wiermanski said the bureaus presented the score to the Federal Reserve, Federal Deposit Insurance Corp., Office of the Comptroller of the Currency, Office of Thrift Supervision, and National Credit Union Administration on Monday but neither lenders nor Fair Isaac were told about the project until its unveiling Tuesday.

VantageScores range from 501 to 990, as opposed to FICO's 330 to 850. "It would change things, I think, pretty dramatically if you went to that, because today 620 is a score at the low end of acceptable," said Joe Blaston, the director of mortgage banking at Sovereign Bancorp Inc. in Philadelphia. "And if you look at this, that would make 620 a D-score."

But the bureaus say the new system will make scores easier to understand and use for lenders and consumers, partly because of the academic-grade key accompanying the new scale (901 to 990 is an "A," 800 to 901 is a "B," and so on).

Another reason the new system will be simpler for lenders and consumers, according to Mr. Wiermanski, is that the bureaus will use identical "adverse-action codes" for reasons why a consumer's score is not perfect.

VantageScore will be independently marketed by each of the bureaus through a licensing agreement with their joint venture, VantageScore Solutions LLC.

Jody Shenn and Marc Hochstein contributed to this report.

---- INDEX REFERENCES ----

COMPANY: NATIONAL CITY CORP; SOVEREIGN BANCORP INC; MGIC INVESTMENT CORP; MARMON GROUP LTD; FAIR ISAAC CORP; EQUIFAX INC; EXPERIAN CORP

NEWS SUBJECT: (Licensing (1LI80); Economics & Trade (1EC26))

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OTHER INDEXING: (AMERICAN BANKER AND SOURCEMEDIA INC; CURRENCY; DANA WIKLUND; EQUIFAX; EQUIFAX INC; EXPERIAN INC; **FAIR ISAAC**; **FAIR ISAAC** CORP; FEDERAL RESERVE FEDERAL DEPOSIT INSURANCE CORP; **FICO**; MGIC; MGIC INVESTMENT CORP; MR WIKLUND; NATIONAL BANK OF ARIZONA; NATIONAL CITY CORP; NATIONAL CREDIT UNION ADMINISTRATION; OFFICE OF THRIFT SUPERVISION; SOVEREIGN BANCORP INC; TRANSUNION; TRANSUNION LLC; **VANTAGESCORE** SOLUTIONS LLC) (Chet Wiermanski; Dave Greco; Generally; Grudnowski; Jody Shenn; Joe Blaston; Marc Hochstein; Patrick Lamb; Paul Springman; Thomas G. Grudnowski; VantageScore; VantageScores; Wiermanski)

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Atlanta Journal and Constitution (GA)

March 15, 2006

Section: Business

Credit bureaus agree on scoring: Equifax, rivals take on industry giant **Fair Isaac**

PERALTE C. PAUL

The nation's three largest credit reporting bureaus -- Experian, TransUnion and Atlanta-based Equifax -- have developed a uniform credit scoring system they say will be an improvement for businesses and consumers.

But the companies' yearlong effort, which resulted in the formation of **VantageScore**, as the scoring system is called, puts them in direct competition with **Fair Isaac** Corp., the 50-year-old firm considered the vanguard of credit score modeling to assess risk.

The three-digit credit score and general credit report are integral to you as a consumer because they're used by lenders to determine whether they'll approve a mortgage loan or car note and how much interest you'll pay. The higher the score, the more likely it is that you'll pay your debts and pay them on time. The scores and reports also factor into how much you'll be charged for insurance and, in some cases, whether an employer will hire you.

In a joint news conference Tuesday, the companies said the decision to launch their own scoring system was a response to business and consumer demand for uniformity in the scores.

Indeed, if you pulled your credit reports now, you could get three different scores -- in some cases varying by 40 points -- because each credit bureau used a different scoring formula. So lenders would have to reconcile the differences.

Under the **VantageScore** system, each bureau would use the same formula and scores would be more comparable.

The scores, which range from 501 to 990, won't always match exactly under the new system because each bureau doesn't necessarily carry the same credit data on you.

"There are variables in the data content, and there are variables in the modeling," said Dana A. Wiklund, who studies consumer payment trends and is senior vice president of Equifax's predictive science business. "What this does is it reduces one of the variables."

The new system is being marketed to businesses immediately but will be gradually rolled out to consumers.

Under **Fair Isaac's FICO** model, your score ranges from 300 to 850 and is weighted on several factors. Payment history counts for 35 percent, debt amount 30 percent, length of history 15 percent, and kinds of credit used and new credit accounts 10 percent each.

The **VantageScore** uses the same categories, but the three credit reporting agencies would not disclose how they are weighted.

'Market demand' cited

The three companies, which each plan to individually sell the scores to consumers at some point, insist they're not trying to cut out **Fair Isaac** or funnel more money toward their bottom lines.

"This is a direct response to market demand," said Colleen Tunney, a TransUnion spokeswoman.

Under their scoring, 901 to 990 would be considered an "A," 801-900 a "B," and so on down to 501 to 600, which is an "F."

That, Tunney said, makes it easier for consumers to understand their own creditworthiness and for businesses to decide in how much credit to extend.

"Business customers, they want more highly predictive scoring options, and consumers have become engaged in managing their credit features and their credit health. We think this answers both of those."

Some analysts are skeptical.

"This is about putting their own mousetrap into the marketplace," said Greg McBride, a banking analyst with Bankrate.com, which tracks trends in the financial services industry. "It's something that generates money for them or is less money that they have to spend for the **FICO** scoring model. There's a clear financial motive."

Competition isn't new

McBride added that for it to work, the bureaus are going to have to convince businesses that their system is better than **Fair Isaac's FICO**-branded scoring system, which has been on the market for nearly 20 years.

"This isn't the first time and it won't be the last time that the bureaus have tried to compete with us," said Ron Totara, **Fair Isaac's** vice president and general manager of global scoring solutions. "At first blush it doesn't seem like it's going to have an impact."

The company, which reported revenue of $798.7 million in fiscal year 2005, has an 80 percent market share of the top 50 U.S. banks and 75 percent of all mortgage originations.

"We've already created a uniform standard," Totara said. "It's generating a lot of noise in the marketplace, but as far as a material threat to how we do business, it's pretty inconsequential."

Nevertheless, **Fair Isaac** shares took a dip on the news and closed at $39.37, down $2.79. Equifax closed at $38.53, up 48 cents.

TransUnion and Experian are privately held.

---- INDEX REFERENCES ----

COMPANY: BUILDING MATERIALS CORPORATION NO 1; FIRST AMERICAN REAL ESTATE SOLUTIONS; EXPERIAN INFORMATION SOLUTIONS INC; BANKRATE COM; EXPERIAN; FAIR ISAAC CORP; EQUIFAX INC

NEWS SUBJECT: (Market Financials (1FI61))

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BusinessWeek

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MARCH 15, 2006

NEWS ANALYSIS

By Peter Coy

Giving Credit Where Credit Is Due

Three credit bureaus band together to rival Fair Isaac's FICO scoring system. If VantageScore is more accurate, will lenders change their ways?

It's the multibillion-dollar question that every credit-card company, auto lender, and mortgage outfit wants to know: If they lend you money, will you pay it back? Fair Isaac -- creator of the famous FICO score -- is the company that answers that question most often today. But on Mar. 14, the Big Three credit-reporting companies unveiled what had been a tightly guarded secret plan to knock Fair Isaac from its throne and become the dominant provider of credit scores to lenders.

For most borrowers, this is a good thing. More intense competition will force everyone in the credit-scoring business to assess default risk as accurately as possible (see BW, 11/28/05, **"Anatomy of a Credit Score"**). Creditworthy people who were unfairly lumped in with deadbeats are more likely to get credit now, and at lower rates. Of course, poor risks who were accidentally given loans are more likely to be rejected if accuracy improves. On the whole, though, lenders will tend to make more loans, at lower rates, if they have increased confidence in the accuracy of credit scores.

SETTING STANDARDS. VantageScore was announced jointly by the top credit-reporting giants: Equifax (EFX), Experian, and TransUnion. Scores will range from a sterling 990 down to a bankrupt 501. In contrast, FICO scores range from 850 to 300. As a gimmick, VantageScore may also be reported as a letter grade -- from A through D, and F.

To create VantageScore and better compete with Fair Isaac (FIC), the three rival credit bureaus set aside their differences and started from scratch, using raw data on millions of people in their databases. They devised a standard way to categorize borrowers, as well as a standard recipe to determine creditworthiness. The bureaus won't share data. Instead, each will use the recipe on its own data to produce a credit score. The only source of difference between bureaus' VantageScore results will be the raw data -- such as missing or inaccurate information -- not scoring methodology.

Until now, the three bureaus offered their homegrown credit scores for sale to lenders but didn't get as many takers as they'd hoped, because many lenders preferred FICO scores. Experian and Trans Union also sold their scores directly to consumers. It has been highly frustrating to lenders -- and to borrowers -- that the same person could get drastically different credit scores from different bureaus.

SUBPRIME MARKETING. On the bright side, the companies say that using VantageScore reduces by about 30% the wide "dispersion" in scores that the different bureaus generate. On the not-so-bright side, that means that 70% of the dispersion remains. That's because VantageScore can't overcome the problem of incomplete or inaccurate information. "Garbage in, garbage out," says Greg Fisher of Dayton, Ohio, who runs two Web sites on the subject, creditscoring.com and creditaccuracy.com.

While acknowledging that VantageScore isn't perfect, its authors say their tests show it makes better predictions about loan applicants who have "thin files," such as young people with no credit history. It should also help lenders better segment less creditworthy "subprime" borrowers, so they can figure out which ones to market to and which to stay away from, says Dana Wiklund, senior vice-president for predictive sciences at Equifax (see BW Online, 9/14/05, **"Subprime Lenders Bear Scrutiny"**).

While it may not matter much to consumers, a big issue for the industry is how VantageScore will fare against Fair Isaac. The Big Three say they haven't yet measured its performance vs. FICO. Fair Isaac, with revenues of nearly $800 million last year, says it counts 99 of the top 100 U.S. banks as clients. However, investors see a challenge. Fair Isaac shares fell nearly 7% on the news of the competing system.

ANTITRUST CONCERNS? Fair Isaac Chief Executive Tom Grudnowski said in an interview that FICO scores are deeply embedded in the way lenders evaluate loan applications. The biggest challenge for the credit bureaus, he says, will be to prove that their score is so much better that it justifies ripping up the way they do things now. Says Grudnowski: "There's got to be a really compelling reason to convince an institution to change."

There's also the question of whether the close collaboration between three industry rivals could be perceived by antitrust regulators as an attempt to squelch competition and raise prices. A Justice Dept. spokeswoman on Tuesday said the department would have no immediate comment. A Federal Trade Commission spokesman did not immediately return a phone call. Only time will tell how they rate VantageScore.

Coy is *BusinessWeek*'s Economics Editor

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USA Today (USA)

March 15, 2006

Section: MONEY

Credit scores soon may get less confusing

Sandra Block

To try to make credit scores easier to understand, the three major credit bureaus Tuesday announced a common system to gauge whether a borrower is a good credit risk.

The agencies -- TransUnion, Experian and Equifax -- now use their own formulas to create credit scores. That means lenders and consumers sometimes get three different scores for the same borrower. Consumers have to collect all three scores from the credit bureaus to gain a full picture of their credit profiles.

The new formula could also make it easier for young adults and other consumers with limited credit histories to get credit scores, says Paul Springman of Equifax. In developing the model, the credit bureaus sought ways to assess such borrowers' credit risk more accurately, says Dana Wiklund, a senior vice president at Equifax.

The new **VantageScore** won't eliminate all discrepancies in credit scores. "The main reason scores differ so much is because the data from the three bureaus differ so much," says Evan Hendricks, author of Credit Scores & Credit Reports. "Some creditors report to one, some to two and some to all three."

Credit scores are based on a number of factors, including your bill-paying history, the amount of money you owe, the amount of credit you have available, and how long you've had credit. Credit card companies, mortgage lenders, banks and landlords use your credit score to try to predict the likelihood that you'll pay your bills on time.

Consumers will be able to buy their **VantageScore** from the three credit bureaus in a few months. But the success of **VantageScore** will depend on lenders' willingness to buy it, Hendricks says.

"I'm willing to bet it won't happen quickly," he says.

Officials at **Fair Isaac**, which sells the most widely used credit score, agree. The "vast majority" of **large lenders** now **use Fair Isaac's FICO** score, notes Ron Totaro, a vice president at **Fair Isaac**. **FICO's** system is "ingrained" **in** lenders' **computer systems**, and they're unlikely to replace it with **VantageScore**, he **contends**.

Credit bureau officials say **VantageScore** will be easier for consumers to understand because it will use letter grades to rate creditworthiness.

Borrowers with "A" credit will be eligible for the lowest interest rates; those with an "F" will pay high rates, or might even be unable to get credit. Scores will range from 501 to 990, compared with 350 to 850 for **FICO** scores.

That difference could confuse consumers, Totaro says. For example, 800 is a "C" score under the **VantageScore** model. But under the **FICO** system, an 800 score means a borrower has outstanding credit, he says.

---- INDEX REFERENCES ----

COMPANY: BUILDING MATERIALS CORPORATION NO 1

INDUSTRY: (Credit (1CR60); Banking (1BA20); Financial Services (1FI37); Retail Banking Services (1RE38))

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Star Tribune (Minneapolis, MN)

March 15, 2006

Credit firms challenge **FICO** score's dominance.(BUSINESS)
Lee, Thomas

Byline: Thomas Lee; Staff Writer

Fair Isaac Corp. shares sank 6.6 percent Tuesday after the nation's three top credit-reporting agencies launched a new scoring system that could challenge **Fair Isaac's** dominant **FICO** system.

Equifax, Experian and TransUnion said the **VantageScore** system will generate a more consistent scoring system because all three agencies will use the model. In the past, the three agencies relied on different scoring systems that often produced different credit scores for the same consumer.

Under **VantageScore**, the companies said in a joint statement, "any variances in credit scores between credit reporting companies will be attributed to data differences ... and not to the structure of the scoring model or the interpretation of the data."

The combined firepower of the credit-reporting agencies may pose a significant threat to Minneapolis-based **Fair Isaac**, some analysts said.

VantageScore could erode **Fair Isaac's** lock on the market, said Greg McBride, an analyst with Bankrate.com. Wall Street apparently agreed: **Fair Isaac** stock fell $2.79 to close at $39.37.

Fair Isaac executives, however, dismissed talk of a threat.

For years, the company's **FICO** system, which develops a credit score based on facts such as a consumer's payment history and debt ratio, has dominated the lending industry. Banks and mortgage companies use **FICO** scores to set interest rates and to determine what, if any, loan a consumer should get.

"We are the engine that powers the U.S. lending industry," said Ron Totaro, Fair Isaac's vice president and general manager of global scoring solutions. "We are embedded in the lending system. It will be very hard to make a dent in our business."

McBride said two scoring systems will confuse the consumer.

Thomas Lee - 612-673-7744

---- INDEX REFERENCES ----

COMPANY: BUILDING MATERIALS CORPORATION NO 1; BANKRATE COM; FAIR ISAAC CORP

INDUSTRY: (Credit (1CR60); Banking (1BA20); Financial Services (1FI37); Retail Banking Services (1RE38))

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OTHER INDEXING: (BANKRATE COM; **FAIR ISAAC** CORP; **FICO**) (Experian; Fair Isaac; Greg McBride; McBride; Ron Totaro; Thomas Lee; TransUnion; VantageScore; Wall Street) (Credit bureaus) (General) (General interest (GENI); News, opinion and commentary (NEWS))

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